



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 3/7/2008

GAIN Report Number: RS8016

Russian Federation

Sugar

Sugar Union Demands More Government Support 2008

Approved by:

Allan Mustard
U.S. Embassy

Prepared by:

Erik Hansen, Mikhail Maksimenko, Cynthia Ann DuBois

Report Highlights:

The Russian Sugar Union is demanding that the Russian government increase the current \$259.99/metric ton price ceiling to \$299.99/metric ton in order to keep seasonal duties for raw sugar imports in place. According to Russian Resolution #671 dated October 12, 2007, seasonal duties will be terminated if the average monthly price of raw sugar, as quoted by the New York Board of Trade, reaches \$259.99/metric ton.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Moscow [RS1]
[RS]

Executive Summary

The Russian Sugar Union (RSU) issued an appeal via local media outlets to the effect that, due to the fluctuating state of the world raw sugar market, it is absolutely vital that the Russian government increase the price ceiling for sugar from \$259.99 per metric ton (MT) to \$299.99. According to Russian Resolution #671 dated October 12, 2007, seasonal duties will be terminated if the average monthly price of raw sugar, as quoted by the New York Board of Trade, reaches \$259.99 per MT.

According to RSU representatives, this action would ensure that seasonal duties remain in place and would support producer incomes by ensuring a level of market stability in regard to prices. The competitive price for beet sugar would remain in the range of RUR 15,000-15,500/MT (without the VAT).

The original Russian language text was published in a Russian weekly newspaper, Krestyanskiye Vedomosti, on February 28, 2008. A link to the letter can be found at <http://agronews.ru/NewsP.php?NId=43173>.

Text of Russian Sugar Union Letter Dated February 26, 2008

[Unofficial Embassy Translation]

Begin text:

In compliance with Resolution #671 of the Russian Federation, dated October 12, 2007, "On seasonal duties for raw cane sugar and certain kinds of sugar that are brought into the territory of the Russian Federation in 2007 and 2008," a seasonal duty was established for raw cane sugar for the period December 1, 2007 to May 31, 2008.

"Item Two" of the above-mentioned Resolution stipulates that the seasonal duty will be terminated if the average monthly price of raw sugar, as quoted by the New York Board of Trade, reaches \$259.99 per metric ton.

During the drafting of this Resolution (August-September 2007), the commodity exchange price for raw sugar steadily decreased. Over this short period of time the price per metric ton dropped from \$230 to \$203. The International Sugar Organization reported that the world's market underwent a phase of excessive production (over 10 million metric tons) coupled with a growth in stored stocks (62 million metric tons). There was no alternative point of view concerning the short-term forecasts for raw sugar. Prices will continue to decrease. The number of open contracts for raw sugar (an indicator of investor willingness to speculate on price increases) did not exceed 450,000.

However, due to the continual devaluation of the dollar, the threat of economic recession in the United States and Europe, as well as increasing energy costs, investment in agricultural commodities has sharply increased. Commodity exchange analysts believe that "sugar remains the most attractive kind of raw material for the coming 1-2 years and is an ideal option for investment." They speculate that sugar prices will continue to increase due to the fact that investment funds continue to invest in agricultural commodities.

However, under certain conditions, the coordinated actions of commodity exchange traders can have a profound impact on world commodity prices. History has shown that Russian agricultural commodity suppliers will anticipate the effect that world price fluctuations have on Russian customs duties and facilitate commodity exchange rate increases for raw sugar. Investment funds and commodity exchange traders have doubled the number of open positions on the New York Commodity Exchange to 1.1 million contracts. The average

commodity exchange value of raw sugar in January 2008 was \$257 per metric ton. The latest February 2008 figures have already reached \$300.

Such traders are not only interested in speculative trading but also the physical supply of raw sugar shipped to Russia. Therefore, it is easy to deduce that traders are more likely to be interested in abolishing the seasonal duty in order to increase imports than insuring the well being of domestic beet sugar producers.

Terminating seasonal duties, as is outlined in Resolution No. 671, will strain the domestic beet sugar industry. Initial symptoms may be disguised due to the fact that as of the end of February 2008, the carry-over of beet sugar stock brought in before the seasonal duty for raw sugar was introduced will adequately meet the sugar needs of the population for the next 5 months. These reserves are evenly distributed throughout the country. Moreover, there exists no possibility of a short-term sugar deficit in Russia, even on the local level.

The cost of sugar in December 2007 was RUR 13,406/metric ton according to the Russian Statistics Agency (Rosstat) which is 2 percent lower than the cost of sugar in December 2006. In January 2008, Rosstat registered an increase in sugar prices of up to RUR 13,670/metric ton. However, this is lower than the price predicted by the Russian Sugar Union in the aforementioned arguments.

Due to the actions of commodity exchange traders and investment funds, the customs duty rate for importing raw sugar is expected to increase by as much as \$140 as soon as May 2008. At present the equation used to determine the import duty for raw sugar is based on the average amount of imports during the three preceding months. Therefore, the duty rate for May would only be known at the end of March.

Under such circumstances, where there is no continuity concerning the seasonal duty rate, importers have to transfer contracted amounts that were to be supplied in April to later months. As for negotiating future raw sugar contracts, importers must make their decisions based on April prices. Given that it takes no less than two months from the time a raw sugar contract is procured and shipped from Latin America to the time the sugar in question has been processed, manufactured and presented to the final consumers, the end product will be available in the Russian market only at the beginning of June 2008.

If the seasonal duty is terminated prior to the Resolution's stipulated date, sugar beet producers and processors will be forced to speed up sales in March-April. Over the last week all these negative dynamics were manifest in the sugar markets. The aforementioned scenario would result in a sharp decrease in sugar commodity stocks in May 2008. Sugar manufactured from imported raw material will not have reached a sufficiently high level to replenish stocks that will result in severe local deficits and higher sugar prices by May 2008.

According to Russian Sugar Union estimates, the cost of manufacturing sugar beet in 2008 will grow by 18 percent while the cost of manufacturing white sugar from sugar beet will increase to RUR 15,960/metric ton (without the VAT). This is due to increasing production costs for sugar beets (energy, mineral fertilizers, plant protection agents, taxes, salaries, loan rates). Since there is no stable mechanism for determining the seasonal duty, agricultural producers are already contemplating decreasing the area dedicated to sugar beets by 15 percent.

Under these circumstances, taking into consideration sharp changes in the global sugar market, the Russian Sugar Union considers it necessary to increase the threshold for terminating the seasonal duty from \$259.99 to \$299.99 per metric ton for raw sugar.

Such a change will not only preserve the seasonal duty, which was planned by the government of the Russian Federation, but support current market prices and provide farmers the opportunity to sell their beet sugar at established, competitive prices in the range of RUR 15,000-15,500 per metric ton (without the VAT). This will also help counteract the trend of decreasing area dedicated to sugar beets in Russia.

End text.

Other Relevant Reports

RS7083 Semi-Annual Sugar Report
<http://www.fas.usda.gov/gainfiles/200711/146292998.pdf>

RS7072 Seasonal Sugar Import Tariffs Published
<http://www.fas.usda.gov/gainfiles/200710/146292767.pdf>

RS7032 Sugar Annual Report
<http://www.fas.usda.gov/gainfiles/200704/146280794.pdf>